

Report
of the
Examination of
Dean Health Insurance, Inc.
Madison, Wisconsin
As of December 31, 2004

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

January 13, 2006

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Honorable Jorge Gomez
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of
the affairs and financial condition of:

DEAN HEALTH INSURANCE, INC
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Dean Health Insurance, Inc., (the company or DHI)
(f/k/a Premier Medical Insurance Group, Inc.) was conducted in 2002 as of December 31, 2001.
The current examination covered the intervening period ending December 31, 2004, and included
a review of such 2005 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's
operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the Company
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Dean Health Insurance, Inc., was incorporated on August 22, 1995, and commenced business January 1, 1997, under the name of Premier Medical Insurance Group, Inc. (Premier). The company is owned 53% by Dean Health Systems, Inc., and 47% by SSM Health Care.

Premier was licensed to conduct indemnity insurance business. On November 14, 1995, Premier formed its own wholly owned subsidiary, Dean Health Plan Acquisition Company. Effective January 1, 1996, Dean Health Plan (DHP), a group model HMO licensed in Wisconsin, merged with Dean Health Acquisition Company. DHP stock was converted into stock of Premier and the common stock of Premier owned by DHP was canceled. Concurrent with the reorganization, Dean Health Plan Acquisition Company changed its name to Dean Health Plan. As a result of these transactions, DHP became a wholly owned subsidiary of Premier. In conjunction with the reorganization, 1,500 shares of preferred stock of DHP were converted to 1,500 shares of preferred stock of Premier. The Dean Foundation for Health, Research and Education, Inc., owned 1,500 shares of preferred stock of Premier until September 6, 2000, when Premier redeemed all 1,500 shares of stock. On July 12, 2005, Premier changed its name to Dean Health Insurance, Inc.

DHI provides all primary and specialty care services to insureds through a service agreement with its parent, Dean Health Systems, Inc. (DHS). DHS owns and operates Dean Physician Practice Association. All primary and specialty care services which are not available through DHS are subcontracted to other clinics and physicians. DHS and subcontracted clinics and physicians provide primary and specialty care services to enrollees through a network of approximately 2,000 physicians.

DHS and SSM Health Care of Wisconsin, Inc., (SSMWI) a subsidiary of SSMHC, assume all of DHI's actuarial risk of furnishing covered services to insureds. As compensation for all provider services, DHI pays a capitation to DHS and SSMWI. The capitation is calculated as a percentage of the premium charged by DHI to policyholders. The capitation gets modified prospectively on an annual basis for the following year. During the year, capitation payments are made to a physicians' fund and a nonphysicians' fund. The contract between DHI, DHS, and

SSMWI was effective July 1, 1995, and terminates December 31, 2010. This contract may be terminated for breach of material provision following a 30-day written notice by the terminating party. The contract with DHS has no withhold provisions.

DHS and subcontracting providers are required to provide medical services on a 24-hour basis. DHS currently subcontracts with 200 independent practice associations (IPAs) and clinics.

Subcontracting physician providers are subject to withholds and discounts for outpatient and inpatient services. Distribution of such withholds is at the sole discretion of DHS. Contracts between DHS and subcontracting providers generally have a one-year term and may be terminated by either party for breach of material provision upon 30 days' written notice. DHS may terminate the contract without advance notice for gross misconduct of a provider. The contracts include hold-harmless provisions for the protection of policyholders.

As earlier discussed, DHI provides all covered medical services, including hospital services, to its insureds through a service agreement with DHS and SSMWI. SSMWI was assigned the rights under this contract effective January 1, 2000, from SSM Health Care (SSMHC). SSMWI directly owns and operates St. Marys Hospital Medical Center in Madison, Wisconsin. All inpatient services which are not available through SSMWI are subcontracted to other hospital providers. Under the service agreement, DHI pays a capitation to DHS and SSMWI. During the year, capitation payments are made to the nonphysician fund, a bank deposit account jointly owned by SSMWI and DHS. St. Marys Hospital Medical Center and subcontract nonphysician providers such as other hospitals, chiropractors, pharmacies, and durable equipment providers are compensated on the basis of such subcontracts from the nonphysician fund. Any deficit or surplus is shared 50/50 by both SSMWI and DHS. SSMWI contracts with 28 hospitals. Reimbursements to subcontracting hospitals are based on negotiated discounts or diagnosis-related groups (DRGs). The contracts include hold-harmless provisions for the protection of policyholders.

Inpatient mental health and AODA coverage is limited to 10 days, outpatient mental health and AODA coverage is limited to 20 visits, and transitional mental health and AODA

coverage is limited to 15 days per benefit year. Emergency services have a copayment which is waived upon admission into an inpatient facility, and skilled nursing care is limited to 120 days. Plan coverage is contingent on nonemergency services being provided by participating physicians and hospitals or on the referral of participating physicians.

DHI currently markets to employer groups. The company contracts with outside agencies and pays commissions on new and renewal business. The group business commissions are based on a range of payment schedules: per contract per month, a sliding percentage scale ranging from 0.0625% to 10% or a flat rate based on family size within the group.

Premium rates are determined on a variety of actuarial methods based on the size and type of employer group. The company will also use prior year actual expenses per member per month for each plan and adjusts for inflation, changes in utilization, changes in enrollment mix, and catastrophic losses. Amounts for administration, reinsurance, or reserves are added to the projected medical expense to arrive at the premium.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 11 members. The membership is divided into three groups with staggered expiry term. Per the amended and restated bylaws, annual meetings are to be held each year primarily to elect board of directors to serve a three-year term. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive \$3,000 per year for serving on the board, plus \$300 for each meeting attended. Finance committee members get an additional \$200 per committee meeting attended.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Frank Byrne, M.D. Madison, WI	President and CEO St. Marys Hospital Medical Center	2006
Mark Covalesski, Ph.D Madison, WI	Professor University of Wisconsin – School of Business	2006
Daniel T. Danahy, M.D. Middleton, WI	Physician Dean Health Systems, Inc.	2006
Mary Starmann-Harrison Madison, WI	Chief Executive Officer SSM of Wisconsin	2006
John Heisler McFarland, WI	Vice President SSM of Wisconsin	2008
Ralph Kauten Madison, WI	Chief Executive Officer Quintessence Biosciences	2007
Allen D. Kemp, M.D. Verona, WI	Chief Executive Officer Dean Health Systems, Inc.	2008
William Schoenhard Kirkwood, MO	Executive Vice President/Chief Operating Officer SSM Health Care Corporation	2007
Jeffrey Stitgen, M.D. Middleton, WI	Physician Dean Health Systems, Inc.	2007
William P. Thompson St. Louis, MO	Senior Vice President SSM Health Care Corporation	2008
John A. Vukich, M.D. Madison, WI	Physician Davis Duehr Dean	2008

Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	2004 Salary
Robert Palmer	President/Chief Executive Officer	\$686,141
Allison Mooney	Secretary/Chief Operating Officer	326,314
Robert Komula*	Treasurer/Chief Financial Officer	221,099
Mark Kaufman, M.D.	Chief Medical Officer	382,969
Thomas Hirsch	Vice President – Medical Affairs	251,982
Ed Pattarozzi	Vice President – Sales & Marketing	226,889
Daniel Edge	Vice President – Customer Operations	176,030
Karl Richards	Vice President – Technology & Systems Admin.	174,802

* The Treasurer/Chief Financial Officer position was vacant at the time of the examination.

All officers of the company are compensated by an affiliate, DHP.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Finance Committee

Jeffrey Stitgen, M.D., Chair
Mark Covaleski, Ph.D.
John A. Vukich, M.D.
Ralph Kauten
Mary Starmann-Harrison
Robert Palmer
Allen D. Kemp, M.D.
Steve Caldwell
Allison Mooney

Senior Management Committee

Robert Palmer, Chair
Mark Kaufman, M.D.
Robert Komula
Allison Mooney
Ed Pattarozzi
Daniel Edge
Thomas Hirsch, M.D.
Karl Richards
J.C. McWilliams

Board Compensation Committee

Jeffrey Stitgen, M.D., Chair
Allen D. Kemp, M.D.
Mary Starmann-Harrison
Mark Covaleski, Ph.D.

Credentialing Committee

William Koller, M.D., Chair
Peter Clagnaz, M.D.
Mark McDade, M.D.
Paul Reber, D.O.

Quality Improvement Committee

Thomas Hirsch, M.D., Chair
Mark Kaufman, M.D.
Robert Palmer
Don Logan, M.D.
Tim Lechmaier, M.D.
Mary Dominski, M.D.
Nevin Olson
Andy Kosseff, M.D.
Pat Neely, RN
Peter Clagnaz, M.D.
Paul Reber, M.D.
David Hahn, M.D.
Allison Mooney
Chirs Baker, RN
Megan Hawkos
Sandy Zietlow

Medical Peer Review Committee

Thomas Hirsch, M.D., Chair
Mark Kaufman, M.D.
William Koller, M.D.
Peter Clagnaz, M.D.
Paul Reber, D.O.
Mark McDade, M.D.

Utilization Management Committee

William Koller, M.D., Chair
Mark Kaufman, M.D.
Peter Clagnaz, M.D.
Paul Reber, D.O.
Thomas Hirsch, M.D.
Nevin Olson
Julie Pofahl
Mary Umbeck
Tim Connor, R.Ph.
Kenneth Valyo, D.O.
Becci Wiegand, R.N.
Jennifer Close-Goedgen

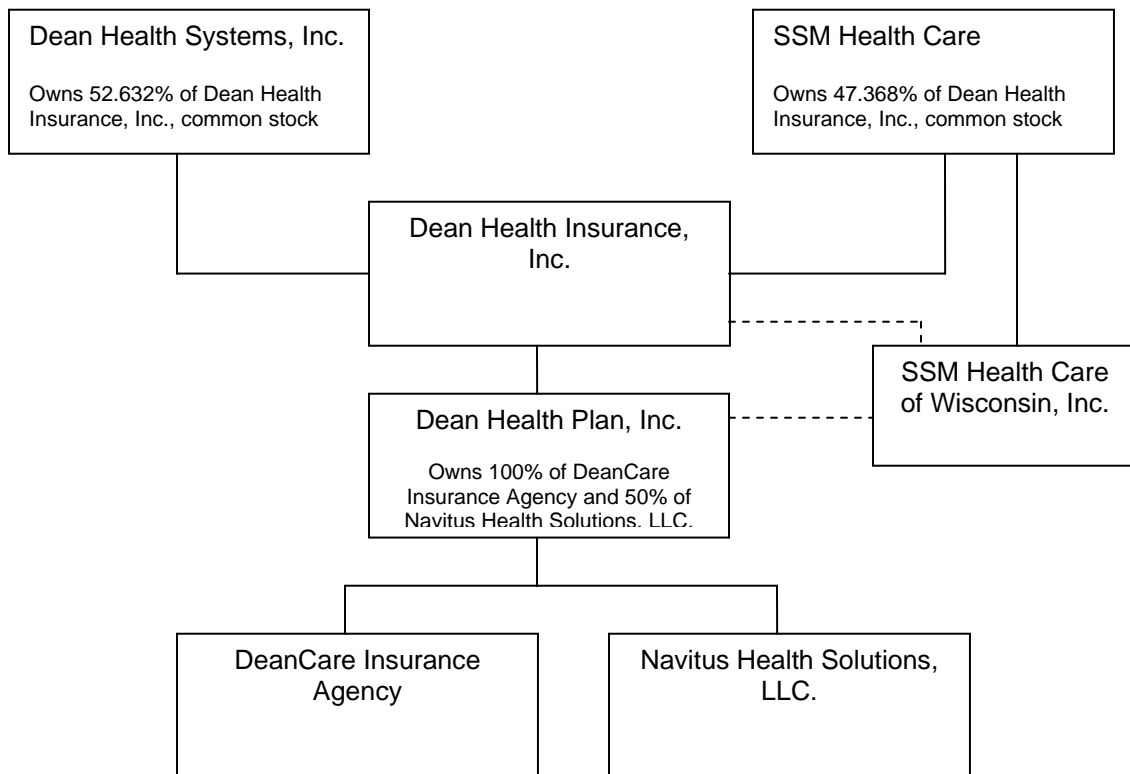
The company has no employees. Necessary staff is provided through an intercompany agreement with Dean Health Plan. Under the agreement, effective September 8, 1995, DHP agrees to negotiate employer, provider, subscriber, and other contracts; advises the board; maintains accounting and financial records; recruits marketing, utilization review, and claims processing personnel; provides or contracts for claims processing, and

information technology and security (IT). DHP receives reimbursement for the actual cost of expenses. The term of the agreement is two years with automatic renewal for successive two-year periods. The company may terminate the agreement upon written notice to DHP. Comments regarding the IT used are located in the report of Dean Health Plan, Inc., as of December 31, 2004.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Dean Health Systems, Inc. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.

Holding Company Chart As of December 31, 2004



----- Shows provider agreement relationship

Dean Health Systems, Inc.

Dean Health Systems, Inc., (DHS) and subsidiaries is a health care delivery system that provides health care services and coverage, primarily to the residents of southern Wisconsin. DHS owns 52.632% of Dean Health Insurance, Inc. Prior to 1995, DHS's legal name was Dean Medical Center, S.C., but the organization still uses the name "Dean Medical Center" for marketing purposes. DHS is owned by over 250 physicians with a 5% ownership by SSM Health

Care Corporation. As of December 31, 2004, the Dean Health Systems, Inc., audited financial statement reported assets of \$333 million, liabilities of \$252 million, and net worth of \$81 million. Operations for 2004 produced net income of \$6.35 million.

Dean Health Plan, Inc.

Dean Health Plan is a health maintenance organization (HMO) organized for the purpose of delivering health care services. DHP is a wholly owned subsidiary of DHI and provides administrative services to DHI under the agreement discussed in the caption of this report entitled "Management and Control." As of December 31, 2004, DHP's annual statement reported assets of \$84.9 million, liabilities of \$43.7 million, and capital and surplus of \$41.2 million. Operations for 2004 produced net income of \$196,818.

SSM Health Care, Inc.

SSM Health Care, Inc., (SSMHC) is a not-for-profit corporation. SSMWI is one of the primary corporations included within the SSM Health Care System which is sponsored by the Franciscan Sisters of Mary. SSMHC acquired ownership of 47.368% of DHI's issued and outstanding common stock in 1995. SSMHC ultimately owns and operates St. Marys Hospital Medical Center in Madison. As of December 31, 2004, SSM Health Care System's audited financial statement reported assets of \$3 billion, liabilities of \$1.5 billion, and net worth of \$1.5 billion. Operations for 2004 produced net income of \$131 million.

Dean Insurance Agency, Inc.

Dean Insurance Agency, Inc., (DIA) is a wholly owned subsidiary of DHP. DIA markets insurance coverages to supplement the HMO products marketed by DHP. As of December 31, 2004, the DIA's GAAP financial statements reported assets of \$675,000, liabilities of \$0, and net worth of \$675,000. DIA did not have any operations during 2004. Net income was reported at \$54,000; which resulted from investment income.

Navitus Health Solutions, LLC

Navitus Health Solutions, Inc., (Navitus) is owned 50% by DHP and 50% by PBM Ventures, LLC. Navitus provides pharmacy benefit management services to DHI. As of December 31, 2004, the audited financial statements reported assets of \$48.8 million, liabilities of

\$48.1 million, and net worth of \$0.7 million. Operations for 2004 produced net income of \$1.8 million.

Affiliated Agreements

Dean Health Insurance, Inc., has entered into numerous affiliated agreements.

These agreements are described below:

- Effective July 1, 1996, the company entered into a service agreement with DHS and SSMHC for the provision of covered services to its members. This agreement is discussed in the section of this report captioned "History and Operations."
- Effective September 8, 1995, DHI entered into an agreement with DHP in which DHP provides administrative services to DHI. This agreement is discussed in the caption of the report entitled "Management and Control."
- Effective November 1, 2004, DHI and DHP entered into an agreement with DHS for nurse triage services and the use of certain facilities and equipment of DHS. DHS will provide all of DHP and DHI enrollees a 24-hour phone nurse advice line known as "Dean on Call." DHS will submit monthly invoices to DHP to allocate costs by functions and the percentages of staff time allocated to each function.
- Effective January 1, 1997, DHI entered into a tax allocation agreement with DHP and DIA. DHI shall file a consolidated tax return on behalf of all parties. The tax liability shall be apportioned among all members of the affiliated group in accordance with the ratio which that portion of the consolidated tax liability attributable to each member of the group having tax liability bears to the consolidated tax return based on separate return calculations with current credit for net losses.
- Effective January 1, 2001, DHP entered into an agreement with DHS, where DHS will provide pharmaceutical and support services to DHP and DHI. DHS will submit quarterly invoices to DHP, which include costs for services of the Dean Clinical Pharmacists.
- Effective January 1, 2004, DHP and DHI entered into a pharmacy benefit administration agreement with Navitus. Navitus shall provide services related to pharmacy management and claims processing for enrollees.

V. REINSURANCE AND CORPORATE INSURANCE

The company does not have a reinsurance contract.

The company is provided with corporate insurance coverage under the contracts listed below:

Type of Coverage	Policy Limits
Boiler and Machinery	\$100,000,000 combined limit
Fiduciary Responsibility	10,000,000 annual aggregate
Directors' and Officers' Liability	15,000,000 each policy year
Worker's Compensation	statutory
Employers' Liability	500,000 policy limit
Professional Liability	10,000,000 each claim
	10,000,000 annual aggregate
Excess Professional Liability	1,000,000 each claim
	3,000,000 annual aggregate
Building/Personal Property Blanket	198,218,000 blanket limit
Employee Dishonesty	1,000,000 limit per occurrence
Theft, Disappearance & Destruction (inside)	100,000 limit per occurrence
Theft, Disappearance & Destruction (outside)	100,000 limit per occurrence
Forgery or Alteration	25,000 limit per occurrence

DHP and DHI are named as insureds under all the policies except for the professional liability policy, where they are the primary named insurers.

The above coverages were obtained through various insurers which are licensed in Wisconsin.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2004, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination."

Dean Health Insurance, Inc.
(f/k/a Premier Medical Insurance Group, Inc.)
Assets
As of December 31, 2004

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 2,809,383	\$	\$ 2,809,383
Stocks:			
Common stocks	41,252,033		41,252,033
Cash, cash equivalents and short-term investments	578,565		578,565
Investment income due and accrued	24,192		24,192
Uncollected premiums and agents' balances in the course of collection	209,447		209,447
Receivables from parent, subsidiaries and affiliates	<u>47,298</u>	<u>47,298</u>	<u> </u>
Total assets	<u>\$44,920,918</u>	<u>\$47,298</u>	<u>\$44,873,620</u>

Dean Health Insurance, Inc.
(f/k/a Premier Medical Insurance Group, Inc.)
Liabilities and Net Worth
As of December 31, 2004

Premiums received in advance		\$ 9,332
Current federal and foreign income tax payable		171,200
Net deferred tax liability		24,446
Aggregate write-ins for other liabilities [including \$(1) current]		<u>8,894</u>
Total liabilities		213,872
Common capital stock	\$ 2,000,000	
Gross paid in and contributed surplus	32,176,886	
Unassigned funds (surplus)	<u>10,482,862</u>	
Total capital and surplus		<u>44,659,748</u>
Total liabilities, capital and surplus		<u>\$44,873,620</u>

Dean Health Insurance, Inc.
(f/k/a Premier Medical Insurance Group, Inc.)
Statement of Revenue and Expenses
For the Year 2004

Net premium income		\$1,918,403
Medical and hospital:		
Hospital/medical benefits	\$1,006,852	
Other professional services	17,682	
Emergency room and out-of-area	182,128	
Prescription drugs	212,549	
Aggregate write-ins for other medical and hospital	<u>407,923</u>	
Total medical and hospital	1,827,134	
General administrative expenses	<u>179,719</u>	
Total underwriting deductions		<u>2,006,853</u>
Net underwriting gain or (loss)		(88,450)
Net investment income earned	142,169	
Net realized capital gains or (losses)	<u>(506)</u>	
Net investment gains or (losses)		<u>141,663</u>
Net income or (loss) before federal income taxes		53,213
Federal and foreign income taxes incurred		<u>21,500</u>
Net income (loss)		<u>\$ 31,713</u>

Dean Health Insurance, Inc.
(f/k/a Premier Medical Insurance Group, Inc.)
Capital and Surplus Account
As of December 31, 2004

Capital and surplus prior reporting year		\$44,113,863
Net income or (loss)	\$ 31,713	
Net unrealized capital gains and losses	514,012	
Change in net deferred income tax	(24,446)	
Change in nonadmitted assets	<u>24,606</u>	
Net change in capital and surplus		<u>545,885</u>
Capital and surplus end of reporting year		<u>\$44,659,748</u>

Dean Health Insurance, Inc.
(f/k/a Premier Medical Insurance Group, Inc.)
Statement of Cash Flows
As of December 31, 2004

Premiums collected net of reinsurance		\$1,831,359
Net investment income		139,990
Miscellaneous income		<u>18,812</u>
Total		1,990,161
Less:		
Benefit- and loss-related payments	\$1,824,204	
Commissions, expenses paid and aggregate write-ins for deductions	<u>179,719</u>	
Total		<u>2,003,923</u>
Net cash from operations		(13,762)
Proceeds from investments sold, matured or repaid:		
Bonds	300,252	
Cost of investments acquired - long-term only:		
Bonds	<u>400,000</u>	
Net cash from investments		(99,748)
Cash provided/applied:		
Other cash provided (applied)		<u>27,336</u>
Net change in cash and short-term investments		(86,174)
Beginning of year (cash and short-term investments)		<u>664,739</u>
End of year (cash and short-term investments)		<u>\$ 578,565</u>

**Dean Health Insurance, Inc.
(f/k/a Premier Medical Insurance Group, Inc.)
Compulsory and Security Surplus Calculation
December 31, 2004**

Assets			\$44,873,620
Less security surplus of insurance subsidiaries			29,486,723
Less liabilities			<u>213,872</u>
Adjusted surplus			15,173,025
Annual premium:			
Group life and health	\$1,918,403		
Factor	<u>10%</u>		
Total		\$191,840	
Compulsory surplus (subject to a \$2,000,000 minimum)			<u>2,000,000</u>
Compulsory surplus excess or (deficit)			<u>\$13,173,025</u>
Adjusted surplus (from above)			\$15,173,025
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum of 110%)			<u>2,800,000</u>
Security surplus excess or (deficit)			<u>\$12,373,025</u>

Growth of Dean Health Insurance, Inc.

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2004	\$44,873,620	\$213,872	\$44,659,748	\$1,918,403	\$1,827,134	\$31,713
2003	44,253,973	140,110	44,113,863	878,932	844,234	79,148
2002	42,733,050	264,789	42,468,261	882,096	843,323	80,908
2001	44,902,240	863,509	44,038,731	1,586,957	1,509,844	84,529

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2004	1.5%	95.2%	9.4%	112.5%
2003	7.9	96.1	6.9	9.8
2002	7.9	95.6	7.5	-55.3
2001	4.8	95.1	10.3	1.4

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2004	833	203.86	2.8
2003	392	104.71	2.4
2002	357	215.59	3.4
2001	798	252.44	4.1

Per Member Per Month Information

	2004	2003	Percentage Change
Premiums:			
Commercial	\$234.47	\$232.40	0.9%
Expenses:			
Hospital/medical benefits	123.06	133.06	-7.5
Other professional services	2.16	1.79	20.4
Outside referrals			
Emergency room and out-of-area	22.26	18.40	20.9
Prescription drugs	25.98	33.60	-22.7
Other medical and hospital	<u>49.86</u>	<u>36.37</u>	37.1
Total medical and hospital	223.31	223.22	0.0
General administrative expenses	<u>21.97</u>	<u>16.09</u>	36.5
Total underwriting deductions	<u>\$245.28</u>	<u>\$239.32</u>	2.5

DHI currently insures five groups that DHP could not write due to underwriting restrictions. DHI writes the policy when the group does not meet the DHP minimum participation level during dual choice enrollment. The company continues to show favorable financial results, reporting net income in each year of operation.

Beginning in 2006, DHI will be participating in the Medicare Part D Prescription Drug Program. This will significantly increase the company's enrollment in 2006.

Reconciliation of Capital and Surplus per Examination

The examination made no adjustments to capital and surplus as reported by Dean Health Insurance, Inc., at December 31, 2004. In addition, there were no examination reclassifications.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were four recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Financial Reporting—It is recommended that the company discontinue recording a receivable/liability on the financial statements for premiums billed in advance of the effective date for which the company has not received payment.

Action—Compliance.

2. Articles and Bylaws—It is recommended that the company either abide by or amend its bylaws to reflect its current practices.

Action—Compliance.

3. Common Stock—It is recommended that the company comply with the Purpose and Procedures Manual of the NAIC Securities and Valuation Office and report the DHP common stock investment at its statutory equity value on financial statements.

Action—Compliance.

4. Holding Company—It is recommended that the company establish procedures in place to ensure all material contracts are properly listed on the Form B registration statement.

Action—Compliance.

Summary of Current Examination Results

Bylaws

The examination review of the company's board minutes noted that the board approved a resolution to amend its bylaws at its July 2005 meeting. Pursuant to s. 611.62 (4), Wis. Stat., amendments to bylaws shall be filed with the commissioner within 60 days after adoption. The company filed the bylaws with the commissioner in November 2005, well more than 60 days after adoption. It is recommended that the company properly file amendments to its bylaws in accordance with s. 611.62 (4), Wis. Stat.

Executive Compensation

The examination review of the Report on Executive Compensation (Form OCI 22-060) for 2004 noted the form is not being completed correctly. The instructions to this form state that if the insurer is part of a holding company system they must complete the form either on a gross basis or by allocation to each insurer. The company completed the form by stating that they do not have employees and that officers are paid by Dean Health Plan, Inc., and did not list any individuals on the form. Although the officers are paid by DHP, the company should still list the officers and compensation and note the correct method used for completing the form. It is recommended that the company properly complete the Report on Executive Compensation (Form OCI 22-060).

Agreements

The review of the company's "Institutional Agency Agreement" with M & I Trust Company noted that this agreement acts as a broker agreement and custody/safekeeping agreement. Therefore, this agreement should contain certain indemnification language as outlined in the NAIC Financial Examiners Handbook. This agreement was missing the following language:

- The custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the custodian's custody except that the custodian shall not be so obligated to the extent that such loss was caused by other than the negligence or dishonesty of the custodian.
- That in the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.

It is recommended the company amend its “Institutional Agency Agreement” to include the proper indemnification language as outlined in the NAIC Financial Examiners Handbook.

VIII. CONCLUSION

Dean Health Insurance, Inc., has reported favorable results over the examination period. The company reported assets of \$44,873,620, liabilities of \$213,872, and capital and surplus of \$44,659,748 for 2004. Operations for 2004 produced a net income of \$31,713.

Dean Health Systems and SSM Health Care of Wisconsin assume all actuarial risk of furnishing covered services to DHI members through a service agreement effective July 1, 1996. This agreement will terminate on December 31, 2010. As compensation for all provider services, the company pays a capitation to DHS and SSMWI. The capitation is calculated as a percentage of the premium charged to policyholders.

The company complied with all of the prior examination recommendations. This examination resulted in three recommendations regarding bylaws, executive compensation reporting, and its investment safekeeping agreement. There were no adjustments or reclassifications as a result of the examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - Bylaws—It is recommended that the company properly file amendments to its bylaws in accordance with s. 611.62 (4), Wis. Stat.
2. Page 22 - Executive Compensation—It is recommended that the company properly complete the Report on Executive Compensation (Form OCI 22-060).
3. Page 23 - Agreements—It is recommended the company amend its “Institutional Agency Agreement” to include the proper indemnification language as outlined in the NAIC Financial Examiners Handbook.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Eleanor Opprieht	Insurance Financial Examiner
Glen Navis	Insurance Financial Examiner
Randy Milquet	Advanced Examiner – EDP Specialist

Respectfully submitted,

Amy J. Malm
Examiner-in-Charge